

**MINUTES OF A MEETING
KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION
BOARD OF DIRECTORS**

July 25, 2018

Opening of Meeting:

1. A regular meeting of the Board of Directors, Kentucky Workers' Compensation Funding Commission was held on July 25, 2018, in the Commission's conference room, located at 42 Mill Creek Park, Frankfort, Kentucky. Madam Chair Judy Long called the meeting to order.
2. Ms. Angela Calloway announced the meeting will be recorded in accordance with Kentucky Revised Statute 61.835.
3. Madam Chair Long verified the press notice and asked for roll call.

Directors Present:

4. Judy Long, Self-Insured Employers Representative
David Dickerson, Secretary, Labor Cabinet
Ryan Barrow, Designee for Secretary William Landrum, Finance & Administration Cabinet
Stephanie Rich, Designee for Secretary Terry R. Gill, Jr., Cabinet for Economic Development

Others Present:

5. Reuben Jones, Executive Director, KWCFC
Louie Hord, Director, Fiscal Operations, KWCFC
Lisa King, Director, Audit and Collections, KWCFC
Olivia Orrender, Audit Review Manager, KWCFC
Angela Calloway, Fiscal Services Officer, KWCFC
Ryan Robinson, Administrative Services Officer, KWCFC
Kelly Gilliam, Workplace Standards
Charlie Donovan, Workers Compensation Funds
Bob Swisher, Department for Workers' Claims
Dustin Miller, Government Strategies, AIG
Kim Bechtel, Office of Financial Management
Andrew Manno, Legislative Research Commission
Jon Stewart, KEMI
Joel Cramer, Conning, Inc.
David Rogan, Conning Inc.
Dan Mainolfi, Conning Inc.
Michael Merrick, Kaplan, Johnson, Abate & Bird
Christina Gordley, State Budget Office

Approval of Minutes:

6. Mr. Ryan Barrow made a motion to approve the May 16, 2018 Regular Meeting Minutes. Ms. Stephanie Rich seconded the motion. Motion carried.

KWCFC Updates:

7. Mr. Reuben Jones updated the Board on activities in the Commission. Those topics include 2018 Priorities Review, 2019 Priorities, Regulatory Update, and Training Update.
8. Mr. Jones reviewed the FY 2018 Staff Priorities and added the staff identified legislation that needed to be changed to enable the Commission to be more efficient and provide clarification of rules and regulations of the Commission. He also added the financial audit and actuarial process has been streamlined by having a single point of contact and weekly meetings are conducted to make sure the actuarial and audit teams get the information they need.
9. In addition, E-File and E-Pay participation has increased; however, with the new legislation it will be a requirement for businesses to submit their payments and reports online. The Commission has also worked to digitize files for storage. Mr. Jones stated a functional analysis of the Commission will be completed and added to 2019 priority list.
10. Mr. Jones stated with the passage of HB388, and in accordance with HB50, the Commission has started the regulatory update which will be completed and submitted by August 15, 2018.
11. Mr. Jones added the Commission, in participation with the Red Tape Reduction, has not only simplified but eliminated one of its regulations.
12. Madam Chair Long commended Mr. Jones and the staff on the work accomplished under his leadership.

Audit & Collections Update: Lisa King (report on file for referral)

13. Ms. Lisa King presented the Audit Program Statistics report. Her report covered the 2017 audit cycle. Ms. King gave an update on the Audits in Protest from 2009-2015, Final Audit Findings from audit cycles 2013-2017 and the Self-Insured Audit Findings as of July 2018.
14. Ms. Stephanie Rich made the motion to accept the Audit and Collections update as presented. Mr. Ryan Barrow seconded the motion. Motion carried.

Financial Report: Louie Hord (report on file for referral)

15. Mr. Louie Hord reviewed the year to date budget versus actual expenses for KWCFC, the year to date internal financial statements, and fiscal year to date interagency transfers made by KWCFC for the period ending June 30, 2018.
16. Secretary David Dickerson made the motion to accept the Financial Reports as presented to the Board. Mr. Ryan Barrow seconded the motion. Motion carried.

Investment Report: Kim Bechtel (report on file for referral)

17. Ms. Kim Bechtel reviewed the Investment Positions/Strategies report as of June 30, 2018. She reported there was a \$2.8M increase in the Special Fund balance since her previous report as of April 30, 2018, which she presented at the last Board meeting. This change was mainly due to the increase in the balance of the Security Lending Repo. She also noted there was an increase in the State Street Liquidity Account which was due to a few U.S. Treasuries maturing and not being reinvested. She stated there was little change in the Coal Workers' Pneumoconiosis Fund and the Self-Insurance Fund.
18. Ms. Bechtel reported on the Actuarial Projections versus Actual Results and the Securities Lending Results.
19. Ms. Bechtel reviewed the Securities Lending Results and explained the utilization rate in June had increased to approximately 84%. She also stated there was no change in the Monthly Cash Projections.
20. Ms. Stephanie Rich made the motion to accept the Investment Report as reported to the Board. Secretary David Dickerson seconded the motion. Motion carried.

Investment Strategy Discussion – Conning, Inc. (report on file for referral)

21. Mr. Joel Cramer, Director, Business Development and Relationship Management introduced Mr. David Rogan, Portfolio Manager, and Mr. Dan Mainolfi, Managing Director and Portfolio Team Head.
22. Mr. Cramer gave an overview of Conning, Inc., and Mr. Mainolfi discussed the investment process and philosophy of Conning.
23. Mr. Rogan presented Conning's portfolio recommendation for the Commission and stated investment risks were discussed and understood.
24. The investment strategies presented were based on the 2017 Actuary Analysis. Mr. Rogan explained the allocation that included Treasury, Government/Taxable Municipal, Corporate A/BBB, Mortgage Backed Securities, and Asset Backed Securities.

25. He stated the reasons for the portfolio recommendation include current program negative net cash needs, with the laddered treasury allocation of 20%. He believes diversification between and within each fixed income sector will provide better risk management for a total portfolio book yield of 3.72%, which is above the breakeven level (2.64%). The portfolio recommended insures a fully funded program with the ability to mitigate future economic downside risk that might arise from equity market volatility. The portfolio is better positioned to provide greater book yield/income and credit quality without equities.
26. Mr. Rogan said looking at what the market looks like today and the risk profile information provided by the actuaries, this recommended strategy protects the downside and provides enough income potential so that it will grow to a surplus in eight years.
27. Mr. Ryan Barrow asked about the existing investment guidelines. Mr. Reuben Jones responded the investment policy was shared with Mr. Rogan and they made recommended changes to the policy based on their analysis. He explained those changes would be reviewed and brought back before the Board for approval.
28. Mr. Barrow made a motion to approve the Investment Portfolio based on strategy as presented by Conning to include liquidation of current portfolio holdings, adhering to the maximum allocation to each sector as presented in the draft investment policy statement dated March 28, 2018, on page 8, #7 B & D. Secretary Dickerson seconded the motion. Motion carried.

Executive Session:

29. Madam Chair Long asked for a motion to go into Executive Session under KRS 61.810 (1) (c), (f) and (j) to discuss litigation, personnel, and penalty waivers.
30. Ms. Stephanie Rich made the motion to go into Executive Session. Mr. Ryan Barrow seconded the motion. Motion carried.

Open Session:

31. Mr. Ryan Barrow made the motion to return to open session. Ms. Stephanie Rich seconded the motion. Motion carried.

Other Business:

Penalty Waivers

32. Ms. Stephanie Rich made a motion to waive penalty in full for the late filing of Ford Motor Company's 4th quarter 2017 Quarterly Premiums Report. This constitutes a final ruling. Secretary David Dickerson seconded the motion. Motion carried.

33. Ms. Stephanie Rich made a motion to waive penalty in full for the 2013-2014 audit of Imperium Insurance Company. This constitutes a final ruling. Secretary David Dickerson seconded the motion. Motion carried.

Penalty Waiver Presentation – Lisa King

34. Ms. Lisa King, in conjunction with the regulation updates, presented the Board information on penalty waivers presented to the Board in the past.

35. Ms. King asked that the Executive Director, as Designee of the Board of Directors, be granted the authority to waive part or all of the penalty, but not interest. Those penalties over \$5,000 would go before the Board.

36. Ms. Stephanie Rich made a motion to define designee in 803 KAR 30:010 as Executive Director for penalty waiver adjudication, on behalf of the Board of Directors, not to exceed the amount of \$5,000. Mr. Ryan Barrow second the motion. Motion carried.

Litigation Update

37. Mr. Reuben Jones reported there are three cases in litigation. The AIG/Travelers' case concerning the statute of limitations will be heard in August. A protest by Travelers' Insurance and a case with BrickStreet Mutual are before the Claims Commission. The Commission is preparing for these engagements.

Contract Update

38. Mr. Reuben Jones reported the Commission will be issuing a Request for Proposal (RFP) for legal support that was previously approved by the Board.

Coal Workers' Pneumoconiosis Fund Liability Update – Jon Stewart, KEMI

39. Mr. Jon Stewart presented an overview of the Coal Fund. He stated as of July 1, 2017, liabilities were estimated to be approximately \$40M. In compliance with

House Bill 377, assets of approximately \$20.3M was transferred to KEMI by the Funding Commission.

40. Since July 1, 2017, and as of June 30, 2018, KEMI has received approximately \$16M from coal assessment collected by the Funding Commission. As of June 30, 2018, KEMI has paid out approximately \$8.4M in claims and expenses and earned \$324K from investments.

New Business:

41. Mr. Reuben Jones reported the Financial Audit and Actuarial Study has started and should be completed in sufficient time to present at the next Board meeting on September 26, 2018 and notification of the General Assembly on October 1, 2018.

Adjournment:

42. Mr. Ryan Barrow made a motion to adjourn. Ms. Stephanie Rich seconded the motion. Motion carried.


Chairman of the Board